ACTION

AGENDA ITEM: BUDGET REPORT

ISSUES TO COME BEFORE THE BOARD AT THIS MEETING:

1. Allocate FY 2002/03 in LoC local assistance funds.

2. Allocate FY 2002/03 in CLSA local assistance funds.

3. Authorize a Budget Change Proposal for Library of California programs and services for FY 2003/04.

RECOMMENDED MOTION FOR CONSIDERATION BY THE BOARD: I move that the Library of California Board request its Chief Executive Officer to allocate $990,000 for the budget year 2002/03 in the following manner:

- $240,000 for statewide programs of which $210,000 is to support the Librarians' Index to the Internet (lii) and $30,000 is to support minimum continuation of Periodicals/Serials Database Program, and that the ILL Pilot Program be suspended; and that
- $750,000 to continue support of regional library networks to be allocated equally among each of the seven regions

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RECOMMENDED MOTION FOR CONSIDERATION BY THE BOARD: I move that that the Library of California Board request its Chief Executive Officer to make the $610,000 reduction from the CLSA Program for the 2002/03 year only, by reducing only the loan compensation program and making no reductions to other CLSA programs.

RECOMMENDED MOTION FOR CONSIDERATION BY THE BOARD: I move that the Library of California Board authorize its Chief Executive Officer to submit a Budget Change Proposal for additional 2003/04 local assistance funding for Library of California programs.

ISSUE 1: Consider the allocation of FY 2002/03 LoC local assistance funds.

In the May 2002 revision of the Governor's budget an additional $2.4 million was removed from the LoC local assistance budget, reducing the total appropriation to $990,000 from an initial FY 2002/03 appropriation of $3.39 million.

Budget choices offered by staff in May included:

1. Request that the State Librarian consider funding selected LoC programs under LSTA.

2. Delete any, or all, statewide programs and allocate the balance of funds to the Regional Networks to operate as best they can with limited funding.

3. Delete regional network programs and services and shift the funding to support statewide programs.

LoC Budget

At its May 2002 meeting the Board reviewed budget options and made the following allocation as an interim budget:

Statewide Programs
Librarian's Index to the Internet	$ 210,000
LoC Periodicals/Serials	$ 30,000
Loan Compensation Pilot Project	$ 0
	$ 240,000

Regional Programs
Regional Networks	$ 750,000

Program Total	$ 990,000

In addition the Board divided the $750,000 regional network allocation equally among the seven regional networks ($107,143 each) and authorized the CEO to issue claim forms for $25,000 for each regional network. The Board elected to suspend its pilot interlibrary loan compensation program under the assumption that insufficient funding was available to keep it going as a viable program. These actions by the Board in May are subject to final review and approval at its August 2002 meeting, assuming that the state has a budget by then.

Commentary received from the library community since the May Board meeting has been mixed (see Exhibit A). There are some who support one or two statewide programs, and those who would add more funding to the regional networks. One strategy that has significant support is to request that the State Librarian transfer the Librarian's Index to the Internet (lii) and the LoC Periodicals/Serials Database into LSTA and use some of the $240,000 for statewide programs to fund the pilot loan compensation program. The essence of this argument is that loan compensation is a core, or signature, resource-sharing program and that it should be preserved.

At projected activity levels by the end of FY 2001/02 staff estimates that the loan compensation pilot program will generate 240,560 reimbursable transactions. That number divided into a $240,000 budget would mean a reimbursement rate of $.99 per transaction. This is about 22% of the CLSA $4.49 rate approved by the Department of

Finance in July 2002. If workload increases, it will decrease the reimbursement even further. However, if the Board delays the re-implementation of the project it could fund a smaller number of transactions at a higher rate (i.e., only fund transactions from January-June).

It should also be noted that in its May interim budget motion the Board made a commitment to fund the lii in FY 2002/03. Staff recommends that if the Board requests that the State Librarian accept lii into the LSTA program for FY 2002/03 that $52,500 in LoC funds be allocated to cover the first quarter (July – September) of lii operations. This would leave $187,500 to fund an interlibrary loan compensation pilot program or other statewide program(s).

The other issue discussed at the May meeting with regard to the loan compensation pilot program is that a significant amount of the reimbursement was allocated to a small number of libraries. While this issue has both positive and negative implications, the LoC Act does not provide mechanisms for altering the interlibrary loan compensation mechanism for some program participants and not for others. The LoC Act states:

> Sec. 18844. Reimbursements "Interlibrary loan. Each eligible library shall be reimbursed fully to cover the handling costs of each interlibrary loan among members of the regional library networks. Participants shall provide, as well as utilize, interlibrary loan services and may not charge handling fees to other members."

> Sec. 20322. Interlibrary Loan. "Reimbursable costs are those handling costs and delivery costs which a lending library incurs in filling a successfully completed interlibrary loan request.

> The reimbursement formula and procedures shall be established through subsequent rulemaking conducted under the provisions of the Administrative Procedure Act (Chapter 3.5 of Division 3 of Title 2 of the Government Code, commencing at Section 11340)."

If the Board wishes to reinstate the pilot loan compensation program, either as it has operated in the past or in such a way that it addresses imbalances in usage, then staff recommends that it set the budget, but not implement the program, until options can be brought back to the Board in November.

ISSUE 2: Consider the allocation of FY 2002/03 CLSA local assistance funds.

In the May revision of the Governor's budget the California Library Services Act 2002/03 allocation was reduced by $610,000. At their May meeting the Board discussed several options for allocating this budget reduction but, in the end, it voted to take the entire $610,000 reduction from the TBR program. In this way it was hoped that other programs could be spared.

CLSA Program Budget Reduction to TBR Only	2001/02 Budget	Reduction	Balance	% Reduced
TBR	$ 12,145,000	$ 610,000	$ 11,535,000	5.02%
Statewide Data Base	$ 275,000	$ -	$ 275,000	0.00%
System Level Programs				
Reference	$ 1,524,000	$ -	$ 1,524,000	0.00%
Comm. & Delivery	$ 1,020,800	$ -	$ 1,020,800	0.00%
System Advisory Board	$ 36,000	$ -	$ 36,000	0.00%
System Admin	$ 645,200	$ -	$ 645,200	0.00%
Calif. Library Literacy Service	$ 4,090,000	$ -	$ 4,090,000	0.00%
Families for Literacy	$ 1,384,000	$ -	$ 1,384,000	0.00%
Total	$ 21,120,000	$ 610,000	$ 20,510,000	

Following the May meeting CSL staff reviewed this reduction with President Fong and Budget and Planning Committee Chair Fred Gaines. Staff concern was that it would be difficult to justify a budget request for additional TBR funds if that program was the only program targeted for budget reductions. In addition, letters and comments from the public library community suggested that many library directors did not support the Board's action. Although there was no consensus on how this reduction was to be made, there was a consensus that the allocation should not be limited to the TBR program. Following this discussion, the Board President agreed that the Board should review its motion at the August Board meeting.

The letters received and a summary of the public comment regarding the CLSA budget reduction are included as Exhibit B. In brief:

- 20 public comments were received: 15 were from public library directors; 3 from library trustees; 1 from a cooperative system and 1 from a retired library director
- 12 of the 20 comments said to restore the TBR funds
- 7 of the 20 opposed taking the full reduction from TBR
- 3 said to make across the board reductions
- 3 suggested specific programs to cut
- 1 suggested not to make reductions to the literacy programs

Staff believes that if the Board allocates the budget reduction across all programs it will still be possible to justify a TBR budget augmentation request. A budget reduction could also be made to specific programs for which augmentations are being requested as long as reductions do not exceed that of an across-the-board cut. In light of these considerations, staff recommends that the Board consider two options for allocating the CLSA reductions:

1. Allocate the reduction equally across all CLSA programs, or
2. Reduce the Statewide Data Base program by $100,000 and allocate the balance of the reduction equally across all other CLSA programs.

Option #1: Across Board Reduction

CLSA PROGRAM BUDGET REDUCTION MODELS

CLSA Program Budget	2001/02 Baseline	Reduction	Balance	% Reduced
TBR	$ 12,145,000	$ 350,779	$ 11,794,221	2.89%
Statewide Data Base	$ 275,000	$ 7,943	$ 267,057	2.89%
System Level Programs				
Reference	$ 1,524,000	$ 44,017	$ 1,479,983	2.89%
Comm. & Delivery	$ 1,020,800	$ 29,483	$ 991,317	2.89%
System Advisory Board	$ 36,000	$ 1,040	$ 34,960	2.89%
System Admin	$ 645,200	$ 18,635	$ 626,565	2.89%
Calif. Library Literacy Service	$ 4,090,000	$ 118,130	$ 3,971,870	2.89%
Families for Literacy	$ 1,384,000	$ 39,973	$ 1,344,027	2.89%
Total	$ 21,120,000	$ 610,000	$ 20,510,000	

Option #2: $100,000 Data Base Reduction/Balance Across Board

CLSA PROGRAM BUDGET REDUCTION MODELS

CLSA Program Budget	2001/02 Baseline	Reduction	Balance	% Reduced
TBR	$ 12,145,000	$ 297,143	$ 11,847,857	2.447%
Statewide Data Base	$ 275,000	$ 100,000	$ 175,000	
System Level Programs				
Reference	$ 1,524,000	$ 37,287	$ 1,486,713	2.447%
Comm. & Delivery	$ 1,020,800	$ 24,975	$ 995,825	2.447%
System Advisory Board	$ 36,000	$ 881	$ 35,119	2.447%
System Admin	$ 645,200	$ 15,786	$ 629,414	2.447%
Calif. Library Literacy Service	$ 4,090,000	$ 100,067	$ 3,989,933	2.447%
Families for Literacy	$ 1,384,000	$ 33,861	$ 1,350,139	2.447%
Total	$ 21,120,000	$ 610,000	$ 20,510,000	
Total minus Statewide Data Base	$ 20,845,000			

A chart showing the impact of Option #1 on CLSA literacy programs is included as Exhibit C. Option #2 reductions in literacy programs would be slightly less.

ISSUE 3: Authorize a Budget Change Proposal (BCP) for Library of California programs and services for FY 2003/04.

In developing a BCP for FY 2003/04, staff worked under the assumption that it is probable that the state budget crisis will continue through the FY 2005/06 fiscal year. Staff recommends that the BCP address only program areas with the highest likelihood of success and that have sufficient workload information to justify the request. Therefore, staff is proposing to submit a request only for an interlibrary loan compensation program and for the delivery of materials. There is good workload data from the ILL pilot project from which to project future transaction levels and there is sufficient data from the CLSA delivery programs to provide an estimated cost of delivery for each item.

The estimated amount of funding requested in the BCP for interlibrary loan compensation is $3.1 million. For delivery the amount is $688,000. The total is $3.788 million

The lack of workload data from the LoC regional networks will continue to be a problem in the development of budget augmentation requests for the LoC. While the Board has wanted to be responsive to the unique needs of each region, it is not possible to distill their activities into the kind of workload data needed by the Department of Finance. Staff recommends that the Board work with the regional networks to establish service baselines and measurements, as funding is available, before attempting another budget request for regional network services. Unfortunately, given the limited funding it may not be possible for the networks to agree on priorities or program measures at this time.

RELATED ISSUE TO COME BEFORE THE BOARD IN THE FUTURE:
Consider models for build-out of the Library of California Program.

Relevant Committee: Budget and Planning
Staff Liaison: Mark Parker

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